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Irving Trust

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**Economic Research &
Planning Division**

**Friday
(Noon)**

July 15, 1983

The FOMC has met to discuss and review the monetary targets for 1983; soon Mr. Volcker will share the results of those deliberations with the Senate and House banking committees in his mid-year testimony. Yesterday in his confirmation hearing before the Senate Banking Committee, he did say, "I don't think you'll find those decisions terribly dramatic." The Fed has had several options open. For instance, it could change the targets, or emphasize one aggregate more than the others. However, I think it most likely that the Fed has made no such change. Monetary policy will continue to be subject to a greater degree of discretion than has been the case since October of 1979. There are many needs that the Fed must weigh.

Mr. Volcker, in his testimony before the banking committees, will undoubtedly stress the need for economic recovery, explaining it in terms of domestic and international interests. And, although the economy is stronger-looking each day, he can be expected to point to the fragility that characterizes a recovery in its early phases. In the forefront of Mr. Volcker's mind will be two contrary elements: memory of the aborted recovery of 1980, after the Fed let interest rates soar again; and the current reality of continued excessive M1 growth this year, which seems to call for an increase in interest rates.

Some have suggested that the Fed might agree to change the monetary targets at this mid-year meeting. This, it is alleged, would give the Fed more scope to maneuver. (M1 currently is well above the top of its target, arguably making it difficult for the Fed to allow interest rates to go lower and possibly creating an impression that rates should rise sharply.) On the face of it, this argument has merit, but on second thought such a move does not seem worth the risk.

The risk is that the Fed might reset its targets and still miss them at year-end, thus impairing further the Fed's credibility. The Fed has not had a good record in targeting money growth recently: It missed its 1982 M1 target; it is missing its 1983 target; and it missed its interim 1983 target. Because of this record, the Fed could not afford to set a new target, then miss it. Thus in some ways the Fed is left with more flexibility by keeping its targets unchanged and by appealing to use of judgment in policymaking.

Moreover, a change in the targets is not necessary. M2 is well within its target, and M3 hovers near the top of its growth range. M1 is the clear and present problem. So far the Fed has downplayed M1 because of its continued erratic relationship with GNP. This relationship, M1's velocity, is, however, beginning to look less unusual than it has. In fact, M1's velocity might even increase in the second quarter. If this happens, the Fed is more likely to be concerned with M1's growth. On balance, the Fed's policy aims are likely best served by a continuation of the Fed's current moderately restrictive policies, with a large measure of judgment and the same M1 target.

Robert A. Brusca



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Market Yields

	7/15/83 (Noon)	Week Ago	Year Ago
Prime Lending Rate at Irving Trust Company	10.50%	10.50%	16.50%
Effective since	2/28/83		
Discount Rate at Federal Reserve Bank	8.50	8.50	12.00
Federal Funds	9.38	9.00	12.75
Repurchase Agreements	9.25	8.88	12.13
U.S. Treasury Issues			
Bills			
3 months	9.42	9.39	11.77
6 months	9.92	9.84	12.70
1 year	10.27	10.19	13.16
Coupons			
2 years	10.76	10.61	13.84
4 years	11.19	10.97	13.97
7 years	11.39	11.25	13.95
10 years	11.42	11.24	13.82
Long Bond	11.43	11.29	13.50
Negotiable Certificates of Deposit-Secondary Market			
1 month	9.30	9.30	13.50
3 months	9.55	9.50	13.95
6 months	10.05	9.90	13.95
1 year	10.40	10.20	14.00
Banker's Acceptances			
1 month	9.32	9.30	13.40
3 months	9.70	9.55	13.90
6 months	10.05	9.85	13.90
Eurodollar Deposits			
1 month	9.82	9.75	14.00
2 months	10.00	9.88	14.50
3 months	10.25	10.00	14.63
Commercial Paper - Prime Names			
Directly placed by:			
Finance Companies			
1 week	9.27	9.27	12.84
1 month	9.45	9.33	13.46
3 months	9.74	9.47	13.76
Bank Holding Companies			
1 month	9.07	9.07	13.32
Dealer Placed:			
3 months	9.62	9.57	13.62
New AA Corporate Utility Bond	12.60	12.30	16.25
Tax Exempt			
6 month Project Notes	4.90	4.60	7.80
1 year AAA Bond	5.50	5.50	8.25
5 year AAA Bond	6.75	6.45	9.50
20 year AAA Bond	8.75	9.30	11.70

This information represents prevailing market yields.

It should not be construed as an offering.

All yields are on the offered side of the market.

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